

UPPER ADAMS SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2013

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*; issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, Upper Adams School District has implemented a reporting model to account for deferred inflows of resources, deferred outflows of resources, and net position as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions on these statements are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages 4 through 15 and Post-Employment Benefits Plan - Schedule of Funding Progress on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Upper Adams School District’s basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of Upper Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Upper Adams School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Boyer & Ritten". The signature is written in black ink and is positioned in the center of the page.

Chambersburg, Pennsylvania
December 2, 2013

**UPPER ADAMS SCHOOL DISTRICT
BIGLERVILLE, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2013**

The discussion and analysis of the Upper Adams School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements as well as the financial statements themselves in order to enhance their understanding of the District's financial performance.

Management's Discussion & Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was issued in June of 1999. Certain comparative information between the current year and the prior year is required to be presented in MD&A, and therefore, all necessary comparative data is included in this report as well as in all subsequent reports.

Financial Highlights

The trends of prior years indicated that during the fiscal year 2012-2013, the Upper Adams School District would experience yet another year of significant increases in the costs for special education, medical insurance and cyber-charter school tuition. In the budgeting process, the Board of School Directors was able to balance the budget with a 0.27 mill tax increase that would yield about \$222,000 in additional revenue. \$512,000 was borrowed from the fund balance in order to close the gap between revenues and expenditures. The actual results of operation showed that all of these expenses were in fact incurred as the District experienced a 10% increase in medical insurance, a 9.8% increase in special education costs, and an increase in cyber-charter school tuition of 33.5%.

Other Information

On the following pages, the readers will find a series of financial statements and pertinent comments relating to those statements. These statements are organized so that the readers can understand the Upper Adams School District as an entire, operating entity. The statements then proceed to provide an increasingly-detailed look at specific financial activities.

The first two statements are Government-Wide Financial Statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall, financial status. The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental-funds statements tell how general District services were financed in the short-term as well as what remains for future spending. Proprietary-fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary-fund statements provide information about financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Components of Upper Adams School District's Financial Report

- a) Management's Discussion and Analysis
- b) Basic Financial Statements
 - 1) Government-wide Financial Statements with accompanying notes
 - 2) Fund Financial Statements with accompanying notes
- c) Required Supplementary Information

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of Upper Adams School District's
Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business - Food Service	Instances in which the District is the trustee or agent for someone else's resources - Activity Funds
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Change in Net Position	Statement of Change in Fiduciary Net Position
			Statement of Cash Flows	
Accounting Basis and Measurement Focus	Accrual accounting and economic- resources focus	Modified-accrual accounting and current financial- resources focus	Accrual accounting and economic- resources focus	Accrual accounting and economic- resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of Inflow - Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during or soon after the end of the year	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Overview of Financial Statements

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, one needs to consider additional non-financial factors, such as changes in the District's property-tax base and the performance of students.

The government-wide financial statements of the District are divided into two categories:

- 1) Governmental activities - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, and state and Federal subsidies and grants finance most of these activities.
- 2) Business-Type activities - The District operates a food-service operation and charges fees to staff, students, and visitors to help it cover the costs of the food-service operation.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

- 1) Governmental funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified-accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental-fund statements provide a detailed, short-term view of the District's operations and the services it provides. Governmental-fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationships (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.
- 2) Proprietary fund - This fund is used to account for the District's activity that is similar to business operations in the private sector, or where the reporting focuses on determining net income, financial position, changes in financial position, and where a significant portion of funding comes through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activity we report in the government-wide statements.

- 3) Fiduciary fund - The District is the trustee, or fiduciary, for an Activity Fund. All of the District's fiduciary activities are reported within this fund on the Statement of Fiduciary Net Position. This fund is excluded from the District's other financial statements because the District cannot use the fund's assets to finance the District's operations.

Financial Analysis of the District as a Whole

The District's total Net Position was \$5,928,409 at June 30, 2013. In comparison, at June 30, 2012, the District's total Net Position was \$6,906,019.

Table A-1
Fiscal Year Ended June 30, 2013
Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 5,034,783	\$ 24,541	\$ 5,059,324
Capital Assets	23,225,885	81,715	23,307,600
Total Assets	\$ 28,260,668	\$ 106,256	\$ 28,366,924
Deferred Outflows of Resources	\$ 211,231	\$ -	\$ 211,231
Current and Other Liabilities	\$ 2,220,908	\$ 273,469	\$ 2,494,377
Long-Term Liabilities	20,155,369	-	20,155,369
Total Liabilities	\$ 22,376,277	\$ 273,469	\$ 22,649,746
Net Assets			
Net Investment in Capital Assets	\$ 4,222,129	\$ 81,715	\$ 4,303,844
Restricted	780,507	-	780,507
Unrestricted	1,092,986	(248,928)	844,058
Total Net Assets	\$ 6,095,622	\$ (167,213)	\$ 5,928,409

Fiscal Year Ended June 30, 2012
Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 5,563,990	\$ 12,499	\$ 5,576,489
Capital Assets	24,236,124	80,135	24,316,259
Total Assets	\$ 29,800,114	\$ 92,634	\$ 29,892,748
Current and Other Liabilities	\$ 4,704,172	\$ 168,629	\$ 4,872,801
Long-Term Liabilities	18,113,928	-	18,113,928
Total Liabilities	\$ 22,818,100	\$ 168,629	\$ 22,986,729
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 4,801,098	\$ 80,135	\$ 4,881,233
Restricted	985,938	-	985,938
Unrestricted	1,194,978	(156,130)	1,038,848
Total Net Assets	\$ 6,982,014	\$ (75,995)	\$ 6,906,019

This represents a change of 14.2% and is deemed to be significant. This is the result of total District expenditures outweighing revenues by \$726,000 coupled by a prior period adjustment of \$252,000 for the purpose of implementing GASB 65. Most of the District's net position is invested in capital assets (land, site improvements, buildings, and equipment). The remaining net position consists of restricted and unrestricted amounts. The restricted balances are amounts set aside to fund future purchases or capital projects as planned by the District. The unrestricted net position is comprised of designated and undesignated amounts.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amounts of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers.

Table A-2 takes the information from the Statement of Activities and rearranges it slightly so that the readers can see the total revenues for the year.

Table A-2
Fiscal Year Ended June 30, 2013
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$ 227,432	\$ 578,436	\$ 805,868
Operating Grants and Contributions	4,601,506	502,552	5,104,058
Capital Grants and Contributions	-	-	-
General Revenues			
Property Taxes	9,532,500	-	9,532,500
Other Taxes	2,591,158	-	2,591,158
Grants, Subsidies and Contributions (Unrestricted)	6,014,973	-	6,014,973
Other	1,112	20,755	21,867
Total Revenues	22,968,681	1,101,743	24,070,424
Expenses			
Instructional	14,440,932	-	14,440,932
Instructional Student Support	1,823,891	-	1,823,891
Administrative and Financial Support	2,703,958	-	2,703,958
Operation and Plant Maintenance	1,769,233	-	1,769,233
Pupil Transportation	1,498,359	-	1,498,359
Student Activities	737,583	-	737,583
Community Services	15,871	-	15,871
Interest on Long-Term Debt	613,609	-	613,609
Food Service	-	1,192,961	1,192,961
Total Expenses	23,603,436	1,192,961	24,796,397
Changes in Net Position	\$ (634,755)	\$ (91,218)	\$ (725,973)

Table A-2 (Continued)
Fiscal Year Ended June 30, 2012
Changes in Net Position

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$ 208,287	\$ 560,590	\$ 768,877
Operating Grants and Contributions	4,280,638	471,762	4,752,400
Capital Grants and Contributions	-	-	-
General Revenues			
Property Taxes	9,486,366	-	9,486,366
Other Taxes	2,560,470	-	2,560,470
Grants, Subsidies and Contributions (Unrestricted)	6,011,787	-	6,011,787
Other	28,964	(267)	28,697
Total Revenues	22,576,512	1,032,085	23,608,597
Expenses			
Instructional	13,410,892	-	13,410,892
Instructional Student Support	1,993,239	-	1,993,239
Administrative and Financial Support	2,292,369	-	2,292,369
Operation and Plant Maintenance	1,916,565	-	1,916,565
Pupil Transportation	1,257,364	-	1,257,364
Student Activities	668,739	-	668,739
Community Services	15,646	-	15,646
Interest on Long-Term Debt	683,136	-	683,136
Food Service	-	1,095,409	1,095,409
Total Expenses	22,237,950	1,095,409	23,333,359
Changes in Net Position	\$ 338,562	\$ (63,324)	\$ 275,238

Table A-3 shows the District's seven largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, and community services as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Year Ended June 30, 2013
Governmental Activities

Functions/Programs	Total Cost of Services	Net Cost of Services
Instructional	\$ 14,440,932	\$ 11,774,438
Instructional Student Support	1,823,891	802,026
Administrative	2,703,958	2,528,302
Operation and Plant Maintenance	1,769,233	1,655,507
Pupil Transportation	1,498,359	775,699
Student Activities	737,583	609,046
Community Services	15,871	15,871
Interest on Long-Term Debt	613,609	613,609
Total Governmental Activities	<u>\$ 23,603,436</u>	<u>18,774,498</u>
Less: Unrestricted Grants and Subsidies		<u>6,014,973</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 12,759,525</u>

Fiscal Year Ended June 30, 2012
Governmental Activities

Functions/Programs	Total Cost of Services	Net Cost of Services
Instructional	\$ 13,410,892	\$ 10,955,782
Instructional Student Support	1,993,239	981,352
Administrative	2,292,369	2,148,676
Operation and Plant Maintenance	1,916,565	1,786,689
Pupil Transportation	1,257,364	599,120
Student Activities	668,739	578,624
Community Services	15,646	15,646
Interest on Long-Term Debt	683,136	683,136
Total Governmental Activities	<u>\$ 22,237,950</u>	<u>17,749,025</u>
Less: Unrestricted Grants and Subsidies		<u>6,011,787</u>
Total Needs from Local Taxes and Other Revenues		<u>\$ 11,737,238</u>

Table A-4 reflects the activities of the Food-Service Program, the only business-type activity of the District.

Table A-4
Fiscal Year Ended June 30, 2013
Business-Type Activities

Functions/Programs	Total Cost of Services	Net Cost of Services
Food Service	\$ 1,192,961	\$ 111,973
Less: Other Income-Net		(20,755)
Total Business-Type Activities		\$ 91,218

Fiscal Year Ended June 30, 2012
Business-Type Activities

Functions/Programs	Total Cost of Services	Net Cost of Services
Food Service	\$ 1,095,409	\$ 63,057
Plus: Other Expense-Net		267
Total Business-Type Activities		\$ 63,324

The Statement of Revenues, Expenses and Change in Net Position for this proprietary fund will further detail the actual results of operations.

The District Funds

At June 30, 2013, the District's governmental funds reported a combined fund balance of \$2,527,909, which is a decrease of \$82,648. The primary reasons for this decrease are as follows:

The Capital Reserve Fund received the remaining funds owed to it from the General Fund of \$158,000 and paid out \$363,431 for several major maintenance items that would extend the lives of facilities and grounds. This equated to a decrease of \$205,431 in that fund.

In the General Fund, our revenues exceeded our expenditures by \$122,783. That was due, for the most part, to the Superintendent's resignation and not replacing the Assistant Superintendent as he stepped into the Superintendent's position. This accounted for \$100,347. In addition, the revenues in the Athletic Fund and the Agency Fund exceeded expenditures by \$16,286 and \$6,150, respectively.

To summarize, between the two funds, we decreased the Capital Reserve Fund by \$205,431 and increased the General Fund by \$122,783 for a total decrease of \$82,648 in Total District Funds.

General Fund Budget

During the fiscal year, the Board of School Directors (the Board) authorized revisions to the original budget to accommodate differences from the original budget and the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year and not prohibited by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided.

The District applies for Federal, state and local grants, and these grants cannot always be anticipated in the budgeting process. Due to the economic situation that currently exists, there were almost no revenues received that were not anticipated. Unanticipated revenues of \$99,751 from the state for the Accountability Block Grant that helps to fund full-day kindergarten meant that actual revenues came in at 100.4% of budget. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers typically occur from the budgetary-reserve category to specific expenditure areas. The budgetary reserve includes only those amounts used to accommodate the differences between actual and budgeted expenditures. A designated amount within the fund balance could be used for planned expenditures for improvements/enhancements to the District's operations. These amounts would only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to the fund balance, thereby exceeding the total of the projected expenditures. The Board may consider using this method of budgeting to control tax increases while protecting the integrity of the fund balance.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the District had \$23,225,885 invested in a broad range of capital assets including land, buildings and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$1,010,239 or 4.16% from last year. This data is shown in Table A-5.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	June 30, 2013	June 30, 2012
Land	\$ 370,297	\$ 370,297
Site improvements	807,016	891,560
Buildings	19,748,815	20,752,284
Equipment	2,299,757	2,221,983
Total Capital Assets	\$ 23,225,885	\$ 24,236,124

Debt Administration

As of July 1, 2012, the District had total outstanding debt principal of \$19,763,917. Through the first year of a 3-year “scoop” refinancing, the net effect of pay-downs, retirements, refinancings, and additional debt incurred equals \$718,084. According to the agreed-upon amortization schedules, the outstanding debt as of June 30, 2013, is \$19,045,833 as shown in Table A-6. Other obligations include accrued vacation pay and sick-leave for specific employees of the District as well as other post-employment benefits. More detailed information about the District’s long-term liabilities is included in the notes to the financial statements.

Table A-6
Outstanding Debt

	June 30, 2013	June 30, 2012
General Obligation Bonds		
Series of 2008	\$ -	\$ 7,260,000
Series of 2010	5,630,000	6,405,000
Series of 2010-A	2,018,500	2,023,500
Series of 2011	2,395,000	2,555,000
Series of 2012	7,575,000	-
Capital Lease Obligations	1,427,333	1,520,417
Total Outstanding Debt	<u>\$ 19,045,833</u>	<u>\$ 19,763,917</u>

Economic Factors and Next Year’s Budgets and Rates

The District’s general-obligation bond rating is a Standard and Poor’s (S&P) A with a stable outlook. The A with a stable-outlook rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School Intercept Program. The act provides for undistributed state aid to be diverted to bondholders in the event of default. S & P cited that the A rating reflects the District’s reluctance to use sought-after exceptions under the Act 1 Index to increase taxes to support operations, increased debt-service expenditures in future years as a result of restructuring, and future increases in pension contributions. These weaknesses are somewhat offset by the District’s stable economy and below-average county employment, diverse property- tax bases and strong per-capita market valuations, good available General Fund Balance and moderate debt burden, rapid principal amortization and limited capital needs. The debt for the District runs through 2023.

The District does not expect significant growth in the near future given the residential nature of the local economy, but while there is available land within the District, talk of any development has ceased. In addition, should arise. There have been some layoffs at the businesses located within the District, and employment opportunities in the surrounding areas are not good.

The revenue budget for the 2013-2014 school-year is \$705,000 more than the original budget for 2012-2013. This represents a 3.05% increase in budgeted revenues. In order to accommodate the costs associated with funding employee health benefits, special education costs, and cyber-school tuition, the District increased the property tax by .279 mills which fell within the Act 1 Index and still had to borrow \$803,000 from fund balance in order to balance the budget. The expenditure budget for the 2013-2014 school-year is \$996,000 more than the original budget for 2012-2013, which equates to an increase of 4.22%. Tables A-7 and A-8 reflect the comparison of revenues and expenditures respectively.

Table A-7
Budgeted Revenues

	<u>2013-2014</u>	<u>2012-2013</u>
Local	56%	57%
State	38%	39%
Federal/Other	6%	4%

Table A-8
Budgeted Expenditures

	<u>2013-2014</u>	<u>2012-2013</u>
Instruction	56%	55%
Support Services	33%	34%
Non-Instruction/Community	3%	3%
Fund Transfers/Debt	8%	8%

Contacting the District's Financial Management

This financial report is designed to provide the citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Michael J. Lawrence, Business Administrator/Board Secretary, at Upper Adams School District, PO Box 847, North Main Street, Biglerville, PA 17307, (717) 677-7191.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 368,296	\$ -	\$ 368,296
Investments	3,345,001	-	3,345,001
Receivables			
Taxes - net of allowance for uncollectibles	838,187	-	838,187
Federal subsidies	33,429	8,260	41,689
State subsidies	294,267	569	294,836
Other	3,557	2,802	6,359
Internal balances	15,391	-	15,391
Due from other governments	136,655	-	136,655
Inventories	-	12,910	12,910
Capital Assets			
Land and site improvements - net	1,177,313	-	1,177,313
Buildings and improvements - net	19,748,815	-	19,748,815
Furniture and equipment - net	2,299,757	81,715	2,381,472
Total capital assets	23,225,885	81,715	23,307,600
Total assets	28,260,668	106,256	28,366,924
Deferred Outflows of Resources			
Deferred amounts on refunding debts	211,231	-	211,231
Total assets and deferred outflows of resources	\$ 28,471,899	\$ 106,256	\$ 28,578,155

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
Liabilities			
Bank overdraft	\$ -	\$ 244,065	\$ 244,065
Due to other governments	190,158	-	190,158
Accounts payable	354,455	2,753	357,208
Accrued salaries and benefits	1,446,265	-	1,446,265
Payroll deductions and withholdings	69,620	-	69,620
Retirees' health insurance	-	-	-
Accrued interest	135,480	-	135,480
Internal balances	-	15,391	15,391
Deferred revenue	-	11,260	11,260
Unearned revenue	24,930	-	24,930
Long-term liabilities			
Due within one year	1,174,497	-	1,174,497
Due in more than one year	18,980,872	-	18,980,872
Total long-term liabilities	20,155,369	-	20,155,369
Total liabilities	22,376,277	273,469	22,649,746
Net Position			
Net investment in capital assets	4,222,129	81,715	4,303,844
Restricted for capital projects	780,507	-	780,507
Unrestricted	1,092,986	(248,928)	844,058
Total net position	6,095,622	(167,213)	5,928,409
Total liabilities and net position	\$ 28,471,899	\$ 106,256	\$ 28,578,155

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Year Ended June 30, 2013		Net (Expense) Revenue and Changes in Net Position				
Functions/Programs	Expenses	Program Revenues		Governmental Activities	Business-Type Activity	Total
		Charges for Services	Operating Grants and Contributions			
Governmental Activities:						
Instructional	\$ 14,440,932	\$ 136,647	\$ 2,529,847	\$ (11,774,438)	\$ -	\$ (11,774,438)
Instructional student support	1,823,891	-	1,021,865	(802,026)	-	(802,026)
Administration and financial support	2,703,958	-	175,656	(2,528,302)	-	(2,528,302)
Operation and maintenance of plant services	1,769,233	5,993	107,733	(1,655,507)	-	(1,655,507)
Pupil transportation	1,498,359	-	722,660	(775,699)	-	(775,699)
Student activities	737,583	84,792	43,745	(609,046)	-	(609,046)
Community services	15,871	-	-	(15,871)	-	(15,871)
Interest on long-term debt	613,609	-	-	(613,609)	-	(613,609)
Total governmental activities	23,603,436	227,432	4,601,506	(18,774,498)	-	(18,774,498)
Business-Type Activity:						
Food service	1,192,961	578,436	502,552	-	(111,973)	(111,973)
Total District	\$ 24,796,397	\$ 805,868	\$ 5,104,058	(18,774,498)	(111,973)	(18,886,471)
General Revenues:						
Property taxes, levied for general purposes, net				9,532,500	-	9,532,500
Public utility, realty transfer, earned income, and per capita taxes levied for general purposes, net				2,591,158	-	2,591,158
Grants, subsidies, and contributions, not restricted				6,014,973	-	6,014,973
Investment earnings				7,947	230	8,177
Miscellaneous income				14,970	-	14,970
Loss on disposal of capital assets				-	(1,280)	(1,280)
Transfers				(21,805)	21,805	-
Total general revenues				18,139,743	20,755	18,160,498
Changes in net position				(634,755)	(91,218)	(725,973)
Net Position - July 1, 2012, as previously stated				6,982,014	(75,995)	6,906,019
Prior period adjustment				(251,637)	-	(251,637)
Net Position - July 1, 2012, as restated				6,730,377	(75,995)	6,654,382
Net Position - June 30, 2013				\$ 6,095,622	\$ (167,213)	\$ 5,928,409

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 364,007	\$ -	\$ 4,289	\$ 368,296
Investments	2,566,537	-	778,464	3,345,001
Receivables				
Taxes - net of allowance for uncollectibles	838,187	-	-	838,187
Federal subsidies	33,429	-	-	33,429
State subsidies	294,267	-	-	294,267
Intergovernmental	136,655	-	-	136,655
Other	3,557	-	-	3,557
Due from other funds	15,391	-	-	15,391
Total assets	\$ 4,252,030	\$ -	\$ 782,753	\$ 5,034,783
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 352,209	\$ -	\$ 2,246	\$ 354,455
Due to other governments	190,158	-	-	190,158
Accrued salaries and benefits	1,446,265	-	-	1,446,265
Payroll deductions and withholdings	69,620	-	-	69,620
Unearned revenue	24,930	-	-	24,930
Total liabilities	2,083,182	-	2,246	2,085,428
Deferred Inflows				
Delinquent property taxes	421,446	-	-	421,446
Fund Balances				
Restricted for Capital projects	-	-	780,507	780,507
Unassigned	1,747,402	-	-	1,747,402
Total fund balances	1,747,402	-	780,507	2,527,909
Total liabilities, deferred inflows and fund balances	\$ 4,252,030	\$ -	\$ 782,753	\$ 5,034,783

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2013

Total fund balances - governmental funds	\$	2,527,909
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of assets is \$45,693,875, and the accumulated depreciation is \$22,467,990.		23,225,885
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflows of resources in the funds.		421,446
The difference between the re-acquisition price and the net carrying amount of the old debt is a deferred outflow of resources, which is not reported in the governmental funds.		211,231
Long-term liabilities, including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bonds payable	(17,618,500)	
Capital-lease obligations	(1,427,333)	
Accrued interest	(135,480)	
Bond discount	42,077	
Compensated absences	(686,910)	
Other post-employment benefits obligation	(464,703)	
		<u>(20,290,849)</u>
Total net position - governmental activities	\$	6,095,622

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Local sources	\$ 12,711,923	\$ -	\$ 12,313	\$ 12,724,236
State sources	10,013,399	-	-	10,013,399
Federal sources	299,690	-	-	299,690
Total revenues	23,025,012	-	12,313	23,037,325
Expenditures				
Instruction	12,940,939	-	-	12,940,939
Support services	7,782,436	178,841	3,503	7,964,780
Non-instructional services	693,387	-	-	693,387
Facilities acquisition and construction	-	-	377,068	377,068
Debt service	1,455,018	7,396,159	-	8,851,177
Total expenditures	22,871,780	7,575,000	380,571	30,827,351
Excess (deficiency) of revenues over expenditures	153,232	(7,575,000)	(368,258)	(7,790,026)
Other Financing Sources (Uses)				
Refunding-bond proceeds	-	7,575,000	-	7,575,000
Capital leases	-	-	184,632	184,632
Interfund transfers	-	-	(21,805)	(21,805)
Refunds of prior years' receipts	(30,449)	-	-	(30,449)
Total other financing sources (uses)	(30,449)	7,575,000	162,827	7,707,378
Net changes in fund balances	122,783	-	(205,431)	(82,648)
Fund Balances - July 1, 2012	1,624,619	-	985,938	2,610,557
Fund Balances - June 30, 2013	<u>\$ 1,747,402</u>	<u>\$ -</u>	<u>\$ 780,507</u>	<u>\$ 2,527,909</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2013

Net changes in fund balances - governmental funds		\$ (82,648)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.		
	Capital outlays	719,722
	Less depreciation expense	(1,729,961)
		(1,010,239)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources decreased by this amount this year.		
		(46,838)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest accrued reflected in the Statement of Activities is shown here.		
		27,729
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in governmental funds.		
		(192,870)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
	Issuance of long-term debt	(7,575,000)
	Issuance of capital lease obligations	(184,632)
	Refunding of general obligation bonds	7,260,000
	Repayment of long-term debt	940,000
	Repayment of capital lease obligations	277,716
	Bond (premiums) discounts	27,810
	Amortization of bond (premiums) discounts	(9,561)
	Amortization of refunding loss	(66,222)
		670,111
Change in net position - governmental activities		\$ (634,755)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Local sources				
Real estate taxes	\$ 9,213,990	\$ 9,213,990	\$ 9,142,248	\$ (71,742)
Public utility realty tax	15,500	15,500	15,726	226
Payments in lieu of taxes	8,000	8,000	8,062	62
Per capita taxes	66,000	66,000	66,966	966
Earned income taxes	2,325,000	2,325,000	2,328,100	3,100
Occupation privilege tax	35,000	35,000	41,344	6,344
Real estate transfer taxes	90,000	90,000	129,451	39,451
Delinquent real estate taxes	327,000	327,000	429,028	102,028
Delinquent per capita taxes	-	-	9,568	9,568
Delinquent occupation taxes	-	-	3	3
Earnings on investments	10,000	10,000	7,442	(2,558)
Student activities	-	-	84,792	84,792
Intermediary sources	230,000	230,000	239,605	9,605
Rentals	1,000	1,000	5,993	4,993
Donations	32,000	32,000	63,786	31,786
Tuition	210,000	210,000	136,647	(73,353)
Refunds and other miscellaneous revenue	3,000	3,000	3,162	162
Total local sources revenue	12,566,490	12,566,490	12,711,923	145,433
State sources				
Basic education	5,952,000	5,952,000	5,951,187	(813)
Tuition for orphans and children placed in private homes	8,000	8,000	10,967	2,967
Vocational education	55,000	55,000	110,240	55,240
Migratory children	-	-	1,345	1,345
Special education	933,600	933,600	933,760	160
Transportation	827,000	827,000	714,377	(112,623)
Building reimbursement subsidy	326,000	326,000	156,539	(169,461)

(Continued)

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND (Continued)
 Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues (Continued)				
State sources (continued)				
Health services	34,000	34,000	32,686	(1,314)
Property tax relief subsidy	815,512	815,512	816,980	1,468
PA accountability grant	-	-	99,751	99,751
Other state revenue	26,398	26,398	-	(26,398)
Social security reimbursement	422,000	422,000	434,332	12,332
Retirement reimbursement	662,000	662,000	751,235	89,235
Total state sources revenue	10,061,510	10,061,510	10,013,399	(48,111)
Federal sources				
Title I - Improving the Academic Achievement of the Disadvantaged	189,000	189,000	209,520	20,520
Title II - Preparing, Training, Recruiting High Quality Teachers & Principals	62,000	62,000	62,277	277
Title III - Language Instruction for LEP	29,000	29,000	22,813	(6,187)
Medical Assistance Programs	5,000	5,000	5,080	80
Total federal sources revenue	285,000	285,000	299,690	14,690
Total revenues	22,913,000	22,913,000	23,025,012	112,012
Expenditures				
Instruction				
Regular programs	8,730,371	8,926,372	8,692,536	233,836
Special programs	3,079,349	3,376,149	3,149,821	226,328
Vocational education programs	717,409	722,859	711,183	11,676
Other instructional programs	364,754	201,154	387,399	(186,245)
Total instruction	12,891,883	13,226,534	12,940,939	285,595

(Continued)

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures (Continued)				
Support Services				
Pupil personnel	486,124	494,624	491,204	3,420
Instructional staff	1,849,528	1,750,728	1,651,450	99,278
Administration	2,023,524	2,015,474	1,946,833	68,641
Pupil health	201,577	209,677	206,257	3,420
Business	324,843	328,043	315,195	12,848
Operation and maintenance of plant services	1,798,624	1,823,623	1,672,707	150,916
Student transportation services	1,385,052	1,491,752	1,487,282	4,470
Other support services	12,199	12,199	11,508	691
Total support services	8,081,471	8,126,120	7,782,436	343,684
Non-instructional Services				
Student activities	650,544	727,444	677,516	49,928
Community services	25,200	16,700	15,871	829
Total non-instructional services	675,744	744,144	693,387	50,757
Debt service				
Principal	1,073,902	1,016,061	1,016,061	-
Interest	617,000	439,141	438,957	184
Total debt service	1,690,902	1,455,202	1,455,018	184
Total expenditures	23,340,000	23,552,000	22,871,780	680,220
Excess (deficiency) of revenues over expenditures	(427,000)	(639,000)	153,232	792,232
Other Financing Sources (Uses)				
Interfund transfers	158,000	158,000	-	(158,000)
Refunds of prior years' receipts	(3,000)	(31,000)	(30,449)	551
Budgetary reserve	(240,000)	-	-	-
Total other financing sources (uses)	(85,000)	127,000	(30,449)	(157,449)
Net change in fund balance	\$ (512,000)	\$ (512,000)	122,783	\$ 634,783
Fund Balance - July 1, 2012			1,624,619	
Fund Balance - June 30, 2013			<u>\$ 1,747,402</u>	

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
June 30, 2013**

ASSETS	
Current Assets	
Receivables	
Federal subsidies	\$ 8,260
State subsidies	569
Other	2,802
Inventories	12,910
Total current assets	<u>24,541</u>
Noncurrent Assets	
Furniture and equipment - net	81,715
Total assets	<u><u>\$ 106,256</u></u>
LIABILITIES AND NET POSITION	
Liabilities	
Bank overdraft	\$ 244,065
Due to other funds	15,391
Accounts payable	2,753
Deferred revenue	11,260
Total liabilities - all current	<u>273,469</u>
Net Position	
Investment in capital assets	81,715
Unrestricted	(248,928)
Total net position	<u>(167,213)</u>
Total liabilities and net position	<u><u>\$ 106,256</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION - PROPRIETARY FUND - FOOD SERVICE Year Ended June 30, 2013

Operating Revenues	
Food service revenue	\$ 578,436
Operating Expenses	
Salaries	320,891
Employee benefits	203,416
Purchased property service	20,440
Other purchased service	188
Food and milk	360,441
Supplies	30,413
Donated commodities used	51,893
Equipment - replacement	774
Depreciation	18,945
Dues and fees	260
Other operating expenditures	185,300
Total operating expenses	1,192,961
Operating loss	(614,525)
Nonoperating Revenues	
Investment earnings	230
Federal subsidies	393,571
State subsidies	57,088
Value of donated commodities	51,893
Loss on disposal of capital assets	(1,280)
Total nonoperating revenues	501,502
Loss before transfers	(113,023)
Interfund Transfers	21,805
Change in net position	(91,218)
Net Position - July 1, 2012	(75,995)
Net Position - June 30, 2013	<u><u>\$ (167,213)</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - FOOD SERVICE Year Ended June 30, 2013

Cash Flows From Operating Activities	
Cash received from meal sales	\$ 579,210
Cash payments to employees for services	(524,307)
Cash payments to suppliers for goods and services	(608,537)
Net cash used in operating activities	(553,634)
Cash Flows From Noncapital Financing Activities	
Federal subsidies	393,571
State subsidies	57,088
Interfund transfers	21,805
Increase in bank overdraft	102,745
Net cash provided by noncapital financing activities	575,209
Cash Flows From Capital and Related Financing Activities	
Acquisition of machinery and equipment	(21,805)
Cash Flows From Investing Activities	
Investment earnings	230
Net increase in cash	-
Cash:	
July 1, 2012	-
June 30, 2013	\$ -
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (614,525)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	18,945
Value of donated commodities	51,893
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	(9,102)
Inventories	(2,940)
(Decrease) increase in:	
Due to other funds	1,398
Accounts payable	(77)
Deferred revenue	774
Net cash used in operating activities	\$ (553,634)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	Activity Fund
ASSETS	
Cash and cash equivalents	\$ 109,810
Investments	11,200
Total assets	\$ 121,010
 LIABILITIES	
Due to student groups	\$ 121,010

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Upper Adams School District operates three elementary schools and one secondary school in Adams County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally-elected, nine-member, Board-form of government.

The financial statements of Upper Adams School District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard-setting body for the establishment of governmental accounting and financial-reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

Upper Adams School District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Upper Adams School District is the lowest level of government which has oversight responsibility and control over all activities related to public-school education in the Commonwealth of Pennsylvania. The District receives funding from local, state, and Federal-government sources and must comply with the requirements of these funding-source entities. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. The District is affiliated with Lincoln Intermediate Unit 12 (LIU) along with twenty-four other member school districts. The District is also affiliated with the Cumberland/Perry Area Vocational-Technical School (AVTS) along with twelve other member school districts. The member school districts participate in providing oversight responsibility to the LIU and AVTS through the following:

- Appointment of Board members who are also Board members of the participating school districts
- Approval and funding of operating budgets

Despite the foregoing, the overriding issue is that the volume of participating school districts does not permit Upper Adams School District to exercise "significant influence" over the operations of the LIU and AVTS; therefore, the LIU and AVTS are not considered "component units" of Upper Adams School District in determining the "reporting entity" as required by Governmental Accounting Standards Board Statement No. 39.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate fund financial statements are provided in the report for all of the governmental, proprietary, and fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major, individual governmental funds and the major, individual enterprise fund are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial-Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the economic resources-measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary-fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by providers have been met. Net Position (total assets and deferred outflows less total liabilities and deferred inflows) is a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations, and accumulated depreciation is reported on the Statement of Net Position.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial-Statement Presentation (Continued)

Governmental-fund financial statements are reported using the current financial resources-measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state, and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred revenues until earned. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the District's policy to use resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisitions, uses, and balances of the District's expendable, financial resources and related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from local property, earned income, and per capita taxes; and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including acquisition or construction of capital facilities and other capital assets.

The District operates one enterprise fund, the Food Service Fund. This fund accounts for the activities of the District's food-service program.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal, operating revenue of the District's enterprise fund is food-service charges. Operating expenses for the District's enterprise fund include food-production costs, supplies, administrative costs, and depreciation of capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial-Statement Presentation (Continued)

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

The Activity Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. A portion of the Activity Fund is an Agency Fund which is separate from other Agency Funds because of legal requirements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are also accounted for using the modified-accrual basis of accounting.

D. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each fiscal year for the General Fund on the modified-accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to the adoption of the District's budget and reporting of its financial statements:

The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which the District is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed, operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal, budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved, budget amendments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

Investments: Investments are stated at fair value.

Allowance for Estimated Uncollectible Taxes and Deferred Revenues: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Deferred revenues are based upon an historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

The portion of taxes receivable which is expected to be received within sixty days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as deferred revenue. All other taxes receivable are written off as estimated uncollectible taxes.

Inventories: Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2013. The inventory consisted of government-donated commodities which were valued at their estimated, fair market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method. The District has adopted an inventory-recordkeeping system which distinguishes between donated and purchased commodities. Accordingly, deferred revenue for donated commodities has been recorded.

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the District as assets with initial, individual costs of more than \$5,000 and estimated useful lives in excess of two years, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Donated capital assets are recorded at their estimated fair market values at the dates of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phases of capital assets of business-type activities is included as part of the capitalized values of the assets constructed. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs, and the extent to which the assets are parts of larger capital projects. The costs of normal maintenance and repairs that do not add to the values of assets or materially extend assets' lives are not capitalized.

Depreciation of capital assets is provided on the straight-line method over the estimated useful lives of the assets or groups of assets, as determined by management.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows of Resources - Deferred amounts on refunding debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest over the remaining life of the old or new debt, whichever is shorter.

Long-Term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported inclusive of applicable bond premiums or discounts.

In the fund financial statements, governmental-fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt-service expenditures.

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits, such as unpaid vacation, and sick and personal leave. The calculation of this amount is a product of the appropriate vacation, sick, personal, and retirement lump-sum payments which are available to employees if they were to leave or retire from the District, adjusted for expected turnover-rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. Those costs determined to be current-year costs are reflected as a liability of the General Fund.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employees' Retirement System, a governmental, cost-sharing, multiple-employer, defined-benefit pension plan. The District provides retiree-health, vision, dental, and prescription-drug coverage to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Position or Equity (Continued)

Fund Balance: The District's fund-balance classifications are defined and described as follows:

Nonspendable: Represents fund-balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund-balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund-balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund-balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to express intent to the District's Business Administrator.

Unassigned: Represents fund-balance amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a board policy which prescribes fund-balance guidelines. The District will strive to maintain an unassigned, General Fund balance of not less than one percent and not more than eight percent of the budgeted expenditures for that fiscal year.

Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various "due from" and "due to" accounts.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 2, 2013, the date the financial statements were available to be issued.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Net Position or Equity (Continued)

Implementation of New Accounting Principles: GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, provides financial-reporting guidance for deferred outflows and deferred inflows of resources. The requirements of this statement improve financial reporting by standardizing the presentation of deferred outflows and deferred inflows of resources and their effects on the District's Net Position. This standard was adopted as of July 1, 2012. This statement re-named Net Assets as Net Position, and identified two new components of the Statement of Net Position; see Note 9.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, sets forth criteria to properly classify previously-reported assets and liabilities as deferred outflows or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. The Standard was issued in March 2012, is effective for periods beginning after December 15, 2012, and was adopted as of July 1, 2012.

Note 2. Deposits and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds consistent with sound business practices in the following types of investments:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or its instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
 3. The National Credit Union Share Insurance Fund (NCUSIF)to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's deposits and/or investments may not be returned to it. As of June 30, 2013, \$244,489 of the District's total bank balances of \$522,058 was exposed to custodial-credit risk as follows:

	Amount
Uninsured and collateralized by assets maintained in conformity with Act 72	\$ 244,489

Act 72 is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts, and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis, and authorizing the appointment of custodians to act as the pledgors of the assets.

Investments

As of June 30, 2013, the District had the following investments:

Investment	Maturities	Fair Value
Pennsylvania School District Liquid Asset Fund - Max Series (PSDLAF-Max Series)	51-day weighted-avg	\$ 3,344,992

Portfolio Assets

PSDLAF-Max Series - This fund invests in securities such as U.S. treasury securities, securities issued by the U.S. government, its agencies and instrumentalities, and repurchase agreements collateralized by such securities and contracted with highly-rated counterparties. The pool will hold at least 50% of its assets in securities rated A-1+ by Standards & Poor's, with the remainder held in securities rated A-1. The fund generally maintains a weighted-average maturity of 60 days or less.

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in years or months, weighted to reflect the dollar-size of individual investments within an investment type. WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Interest-Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair-value losses arising from increasing interest rates.

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices. As of June 30, 2013, the District's investments in PSDLAF were rated AAAm by Standard & Poor's.

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in Pennsylvania School District Liquid Asset Fund represent 100% of the District's total investments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Deferred Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2013, follows:

	Amount
Uncollected taxes - real estate	\$ 450,006
Uncollected taxes - personal	50,475
Earned income taxes	367,667
Local services taxes	470
Allowance for uncollectible taxes	<u>(30,431)</u>
 Taxes Receivable - Net	 <u><u>\$ 838,187</u></u>
 Taxes to be collected within 60 days	 \$ 416,741
Deferred revenue - delinquent taxes	<u>421,446</u>
 Taxes Receivable - Net	 <u><u>\$ 838,187</u></u>
 Deferred Revenue - General Fund	
Delinquent taxes	<u><u>\$ 421,446</u></u>
 Deferred Revenue - Food Service Fund	
Student deposits	\$ 10,656
Donated commodities	<u>604</u>
	<u><u>\$ 11,260</u></u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the elected, municipal tax collector bills and collects property taxes on behalf of the District. The schedule for property taxes levied for 2012-2013 is as follows:

July 1	Tax-levy date
July 1 - August 31	2.00%-discount period
September 1 - October 31	Face-payment period
November 1	10.00%-penalty period
4 th Monday of January	Lien-filing date
January 1	Interim tax-levy date

The District tax rate for all purposes for the year ended June 30, 2013, was 12.155 mills (\$12.155 per \$1,000 assessed valuation) as levied by the Board of School Directors. Refunds on payments of prior-year taxes are classified as other debt-service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District were approximately 96.00% of the total tax levy. Adams County Tax Claim Bureau collects delinquent real estate taxes for the District.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2013, are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 15,391	\$ -
Food Service	-	15,391
	<u>\$ 15,391</u>	<u>\$ 15,391</u>

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

Operating transfers between funds during the fiscal year ended June 30, 2013, are as follows:

	Transfers In	Transfers Out
Capital reserve	\$ -	\$ 21,805
Food Service	21,805	-
	<u>\$ 21,805</u>	<u>\$ 21,805</u>

Transfers and payments within the District are substantially for purposes of subsidizing operations, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Note 6. Food Service Fund Inventories

The composition of Food Service Fund inventories at June 30, 2013, is as follows:

	Amount
Materials and supplies	\$ 4,541
Purchased food	7,765
Donated food	604
	<u>\$ 12,910</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Capital-asset activity for the year ended June 30, 2013, was as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 370,297	\$ -	\$ -	\$ 370,297
Capital assets, being depreciated				
Site improvements	2,067,649	-	-	2,067,649
Buildings and improvements	36,766,065	9,451	-	36,775,516
Furniture and equipment	5,770,142	710,271	-	6,480,413
Total capital assets, being depreciated	44,603,856	719,722	-	45,323,578
Less accumulated depreciation				
Site improvements	1,176,089	84,544	-	1,260,633
Buildings and improvements	16,013,781	1,012,920	-	17,026,701
Furniture and equipment	3,548,159	632,497	-	4,180,656
Total accumulated depreciation	20,738,029	1,729,961	-	22,467,990
Total capital assets, being depreciated, net	23,865,827	(1,010,239)	-	22,855,588
Governmental Activities, Capital Assets - Net	\$ 24,236,124	\$ (1,010,239)	\$ -	\$ 23,225,885
Business-Type Activity				
Machinery and equipment	\$ 646,589	\$ 21,805	\$ (25,601)	\$ 642,793
Accumulated depreciation	(566,454)	(18,945)	24,321	(561,078)
Business-Type Activity, Capital Assets - Net	\$ 80,135	\$ 2,860	\$ (1,280)	\$ 81,715

Depreciation expense was charged to the functions/programs of the District as follows:

	Amount
Governmental Activities	
Instructional	\$ 1,152,619
Instructional student support	181,124
Administration and financial support	232,051
Operation and maintenance of plant services	93,023
Pupil transportation	11,077
Student activities	60,067
Total governmental activities	1,729,961
Business-Type Activities	
Food service	18,945
Total School District	\$ 1,748,906

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits at June 30, 2013, consist of the following:

	Amount
Accrued salaries	\$ 1,005,159
Retirement	359,814
Social security	73,345
Unemployment compensation	1,916
Workers' compensation	6,031
	<u>\$ 1,446,265</u>

Accrued salaries represent teachers' salaries earned during the 2012-2013 school year which will be paid subsequent to June 30, 2013. Accrued retirement represents the Public School Employees' Retirement Board contribution for May and June of calendar year 2013, including the portion pertaining to accrued salaries at June 30, 2013. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2013.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations

During the fiscal year ended June 30, 2013, long-term obligations changed as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Governmental Activities				
General Obligation Bonds -				
Series of 2008	\$ 7,260,000	\$ -	\$ 7,260,000	\$ -
General Obligation Bonds -				
Series of 2010	6,405,000	-	775,000	5,630,000
General Obligation Bonds -				
Series A of 2010	2,023,500	-	5,000	2,018,500
General Obligation Notes -				
Series of 2011	2,555,000	-	160,000	2,395,000
General Obligation Notes -				
Series of 2012	-	7,575,000	-	7,575,000
	18,243,500	7,575,000	8,200,000	17,618,500
Bond premium (discount)	(23,828)	(27,810)	(9,561)	(42,077)
	18,219,672	7,547,190	8,190,439	17,576,423
Capital lease obligations	1,520,417	184,632	277,716	1,427,333
Compensated absences	598,841	88,069	-	686,910
Other post-employment benefits obligation	359,902	104,801	-	464,703
	\$ 20,698,832	\$ 7,924,692	\$ 8,468,155	\$ 20,155,369

General Obligation Bonds - Series of 2008 - On January 1, 2008, the District issued General Obligation Bonds in the principal amount of \$8,450,000. The proceeds were used to currently refund a portion of the General Obligation Bonds - Series of 2002 and to pay the costs of issuing the bonds. The economic gain on the refunding of the bonds was \$190,948. The bonds bear annual interest rates ranging from 3.25% to 3.75%. Interest is payable semi-annually, on May 1 and November 1, and the bonds mature serially in amounts ranging from \$5,000 to \$1,315,000 through May 1, 2018. Total interest expense on the Series of 2008 Bonds for the year ended June 30, 2013, was \$129,979. These bonds were satisfied by the issuance of General Obligation Notes - Series of 2012.

General Obligation Bonds - Series of 2010 - On February 16, 2010, the District issued General Obligation Bonds in the principal amount of \$7,620,000. The proceeds were used to currently refund the General Obligation Bonds - Series of 2005 and pay the costs of issuing the bonds. The bonds bear annual interest rates ranging from 1.00% to 3.40%. Interest is payable semi-annually, on February 15 and August 15, and the bonds mature serially in amounts ranging from \$460,000 to \$1,510,000 through February 15, 2019. Total interest expense on the Series of 2010 Bonds for the year ended June 30, 2013, was \$168,290.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

General Obligation Bonds - Series A of 2010 - On August 11, 2010, the District obtained secured financing from Orrstown Bank in the principal amount of \$2,033,500. The proceeds are to be used for improvements to the middle school and central office, acquisition of the District-wide security and communication systems, and to pay the costs of issuing the bonds. Principal payments, commencing on February 1, 2011, are due annually, and interest is payable semiannually at an annual rate of 4.00%. Minimum principal installments range from \$5,000 to \$615,000 through February 1, 2022. Principal may be advanced by the bank to the District, from time to time, through February 1, 2012. Total interest expense on the Series A of 2010 Bonds for the year ended June 30, 2013, was \$82,289.

General Obligation Notes - Series of 2011 - On December 21, 2011, the District issued General Obligation Notes in the principal amount of \$2,640,000. The proceeds were used to provide payment and restructuring of the February 15, 2012 principal payment and interest due on the outstanding General Obligation Bonds - Series of 2010, currently refund the outstanding General Obligation Bonds - Series of 2007, and to pay the costs of issuing the notes. The economic gain on the refunding of the 2007 bonds was \$64,265. The notes bear annual interest rates ranging from 0.40% to 2.875%. Interest is payable semi-annually, on February 1 and August 1, and the notes mature serially in amounts ranging from \$85,000 to \$860,000 through February 1, 2022. Total interest expense on the Series of 2011 Notes for the year ended June 30, 2013, was \$55,316.

General Obligation Notes - Series of 2012 - On August 21, 2012, the District issued General Obligation Notes in the principal amount of \$7,575,000. The proceeds were used to restructure the outstanding General Obligation Bonds-Series of 2008 and to pay the costs of issuing the bonds. The economic gain on the refunding of the 2008 bonds was \$199,968. The notes bear annual interest rates ranging from 0.80% to 2.30%. Interest is payable semi-annually, on May 1 and November 1, and the notes mature serially in amounts ranging from \$5,000 to \$1,580,000 through May 1, 2022. Total interest expense on the Series of 2012 Notes for the year ended June 30, 2013, was \$92,332.

The District is in compliance with all debt covenants of the outstanding bond issues. Those covenants include the following: the District shall include the annual debt service in its budget for the fiscal year, shall appropriate said debt service from its general revenues, and shall punctually cause the payment of the principal and interest of each of the obligations.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

Maturities of general obligation bonds and notes are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 965,000	\$ 420,204	\$ 1,385,204
2015	985,000	402,266	1,387,266
2016	2,185,000	383,536	2,568,536
2017	2,255,000	344,961	2,599,961
2018	2,295,000	303,074	2,598,074
2019-2022	8,933,500	592,231	9,525,731
	<u>\$ 17,618,500</u>	<u>\$ 2,446,272</u>	<u>\$ 20,064,772</u>

Prior Period Adjustment - GASB Statement 65 Implementation - Implementation of GASB Statement 65 recognizes costs of issuance as an expense; therefore, the adoption of this statement resulted in a decrease of bond-issuance costs and Net Position of \$251,637 as of July 1, 2012.

The unrealized loss on the bond refunding was reclassified from bonds payable to deferred outflows of resources as of July 1, 2012.

Compensated Absences - Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts and varies by employee classification. In addition, employees are granted sick and personal days per school year, and any unused days can be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick and personal days in amounts equal to the number of unused days multiplied by amounts established by employment contracts. Certain employees are also offered options regarding retirement incentives as prescribed in the contracts if certain conditions are met. The total liability for accrued vacation, sick and personal leave, and retirement incentives has been reflected in the Statement of Net Position.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Capital Lease Obligations

The District has entered into lease agreements as lessee for financing the acquisition of energy-performance and computer equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, they have been recorded as such.

The assets acquired through the capital leases are as follows:

	Amount
Buildings and improvements	\$ 1,379,095
Furniture and equipment	797,171
Less accumulated depreciation	(748,346)
	<u>\$ 1,427,920</u>

The present value of future minimum lease payments as of June 30, 2013, is as follows:

Year Ending June 30,	Amount
2014	\$ 260,991
2015	224,735
2016	180,644
2017	136,719
2018	140,781
2019-2023	741,194
Total minimum lease payments	<u>1,685,064</u>
Less: amount representing interest	(257,731)
Present value of minimum lease payments	<u>\$ 1,427,333</u>

Note 11. Post-Employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District provides healthcare benefits to eligible, former employees and their dependents. Requirements are outlined by the Federal Government for this coverage. The premium is paid in full by the eligible participant. This program is offered for 18 or 36 months after an employee's termination date. At June 30, 2013, there were no participants covered under COBRA.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan

Plan Description:

Name of Plan: Public School Employees' Retirement System (the System)

Type of Plan: Governmental, cost-sharing, multiple-employer 401 (a) defined-benefit plan

Benefits: Retirement and disability; legislatively-mandated, ad hoc cost-of-living adjustments; healthcare insurance-premium assistance to qualifying annuitants

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-9102)

Annual Financial Report: The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg, PA, 17101-1905 or by e-mailing Beth at bgirman@pa.gov. The CAFR is also available on the publications page of the PSERS website www.psers.state.pa.us.

Funding Policy

Authority: The contribution policy is established by the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution Rates

Member Contributions: Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the members' qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the members' qualifying compensation. Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D Membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the members' qualifying compensation. All new hires after June 30, 2011, who elect Membership Class T-F contribute at 10.30% (base rate) of the members' qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions: Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employers' contributions was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare insurance-premium assistance.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one-half of the District's total rate. The District's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, were \$1,294,156, \$877,744, and \$618,493, respectively, and are equal to the required contributions for each year.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions

Plan Description: Upper Adams School District administers a single-employer, defined-benefit healthcare plan. The plan provides medical, prescription-drug, dental, and vision benefits to eligible retirees and their spouses through the District's group health-insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the various unions representing District employees; said provisions are renegotiated each bargaining period. All employees are eligible upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service regardless of age). Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group-health plan until the retired employees reach Medicare age. The plan does not issue a publicly-available financial report.

Funding Policy: Contribution requirements are also negotiated between the District and the various unions. Retired employees are responsible for payments equal to the premium determined by the District's plan. The District funds the plan on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Annual OPEB Cost and Net OPEB Obligation - The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and to amortize any unfunded, actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB Statement No. 45 was implemented prospectively; therefore, the net OPEB obligation at transition was \$-0-. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

	Amount
Annual required contribution (ARC)	\$ 246,739
Interest on net OPEB obligation	16,196
Adjustment to annual required contribution	(22,095)
Annual OPEB cost (expense)	240,840
Contributions made (estimated)	(136,039)
Estimated increase in net OPEB obligation	104,801
Net OPEB obligation - beginning of year	359,902
Estimated net OPEB obligation - end of year	\$ 464,703

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2013, 2012 and 2011, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 206,069	55.33%	\$ 285,120
6/30/2012	\$ 204,560	63.44%	\$ 359,902
6/30/2013	\$ 240,840	56.49%	\$ 464,703

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions (Continued)

Funded Status and Funding Progress - As of January 1, 2012, the most recent actuarial-valuation date, the actuarial-accrued liability for benefits was \$2,050,510, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$10,153,262, and the ratio of the unfunded, actuarial-accrued liability to the covered payroll was 20.20%.

Actuarial valuations of an on-going plan involve estimates of the values of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare-cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations, and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year, trend information that shows whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial-accrued liability for benefits.

Actuarial Method and Assumptions - Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial-accrued liabilities and the actuarial values of assets, consistent with the long-term perspectives of the calculations.

Actuarial-valuation date	1/1/2012
Actuarial-cost method	Entry-Age Normal
Amortization method	Level-Dollar
Remaining amortization period	30-year open period
Asset-valuation method	Equal to the Market Values of Assets
Actuarial assumptions	
Interest rate	4.50%
Projected salary increases	3.00% cost-of-living adjustment, 1.00% real-wage growth; 3.00% to 0.25% merit increases for teachers and administrators
Healthcare-inflation rate	7.50% in 2012, decreasing by 0.50% per year to 5.50% in 2016; rates gradually decrease from 5.30% in 2017 to 4.20% in 2089 and later

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Affiliates

As explained in Note 1, the Upper Adams School District is a member of the Lincoln Intermediate Unit 12. Through this membership, the District is able to secure various special services, including special education, instructional services, and certain internal-service functions. This District paid \$875,793 as its share to the Lincoln Intermediate Unit 12 for the year ended June 30, 2013.

Upper Adams School District is affiliated with the Cumberland/Perry Area Vocational-Technical School (AVTS). Total payments of \$242,144 were made by the District to the AVTS as the District's share of operating expenses for the year ended June 30, 2013.

Note 15. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or three prior years. There were no significant year-to-year reductions in insurance coverage.

The District elects to be self-insured for unemployment. The District is paying unemployment claims from the General Fund.

Note 16. Contingencies

Grant Program Involvement - In the normal course of operations, the District participates in various Federal or state grant/loan programs. The grant/loan programs are often subject to additional audits by agents of the granting or lending agencies, the purpose of which is to ensure compliance with the specific conditions of the grants or loans. Any liabilities for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although management believes the amount, if any, would not be material.

Note 17. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ADAMS SCHOOL DISTRICT**POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS****REQUIRED SUPPLEMENTARY INFORMATION**

Actuarial- Valuation Date	Actuarial Value of Assets (a)	Actuarial- Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2008	\$ -	\$ 1,777,285	\$ 1,777,285	0.00%	\$ 9,562,543	18.59%
1/1/2009	n/a	n/a	n/a	n/a	n/a	n/a
1/1/2010	\$ -	\$ 1,765,260	\$ 1,765,260	0.00%	\$ 10,635,046	16.60%
1/1/2011	n/a	n/a	n/a	n/a	n/a	n/a
1/1/2012	\$ -	\$ 2,050,510	\$ 2,050,510	0.00%	\$ 10,153,262	20.20%

For financial-reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service; terminated employees who have accumulated benefits, but are not yet receiving them; and retired employees and beneficiaries currently receiving benefits) of 200 or more employees, or at least triennially for plans with a total membership of fewer than 200 employees.

Trend information is presented only for years in which information is available. Years for which an actuarial valuation was not prepared are indicated as "n/a".

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Upper Adams School District's basic financial statements, and have issued our report thereon dated December 2, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Upper Adams School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Upper Adams School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Upper Adams School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Adams School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial-statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Boyer & Ritter". The signature is written in a cursive, flowing style with a large loop at the end of the word "Ritter".

Chambersburg, Pennsylvania
December 2, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Upper Adams School District's compliance with the types of compliance requirements described in OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of Upper Adams School District's major Federal programs for the year ended June 30, 2013. Upper Adams School District's major Federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Upper Adams School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Upper Adams School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Upper Adams School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Upper Adams School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

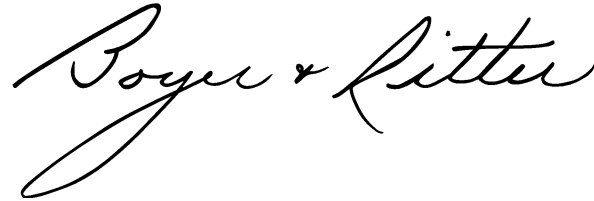
Management of Upper Adams School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Upper Adams School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Upper Adams School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Items SD 2013-1 and 2013-2.

Upper Adams School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Upper Adams School District's responses, and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Boyer & Fitter". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
December 2, 2013

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☒ Yes ☐ None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.027	Special Education Grants to States

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II -- Financial-Statement Findings

There were no findings relating to the financial-statement audit required to be reported.

There were no findings relating to the financial-statement audit required to be reported.

Section III – Federal-Award Findings and Questioned Costs

A. Significant Deficiencies in Internal Control

Child Nutrition Cluster **CFDA # 10.553 and 10.555**
Grant Period: 2012-2013
U.S. Department of Agriculture, Passed through PA Department of Education

SD 2013-1 - Improper Determination of Status and/or Lack of or Incomplete Update to Applicant Status

Criteria or Specific Requirement: The District must develop and maintain a system to review applications for free and reduced meals; the system must properly identify eligible and non-eligible students.

Condition: The improper entry into the software from data presented on the application, as well as improper or lack of update to applicant status upon receipt of new supporting documentation produced errors in applicants' statuses.

Context: During the testing of the approval or denial process, errors were noted involving five applicants. These errors were caused by incorrect data entry and incomplete updating after receipt of further documentation. These errors could have produced changes in applicants' eligibilities for more assistance or less assistance.

Effect: Findings may result in a reduction or termination of Federal funding to the District.

Cause: Various applicants listed an improper or incomplete eligibility status.

Recommendation: District employees must be familiar with all guidelines related to Federal funding, specifically to income verification within the Child Nutrition Cluster CFDA #10.553 and #10.555. In order to improve accuracy of applicant-eligibility status, caution should be used during entry of information into the software system to establish accurate applicant status, and an applicant's approved status should be compared to his/her application and supporting documentation. Changes in an applicant's status should be updated promptly.

(Continued)

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section III – Federal-Award Findings and Questioned Costs (Continued)

A. Significant Deficiencies in Internal Control (Continued)

View of Responsible Officials and Planned Corrective Action: The corrective action plan is to immediately implement a procedure to verify accuracy of entry into the software system in order to produce accurate applicant status. The Food Service Director will review the initial entries of applications and any adjustments made to the eligibility statuses of the applicants.

SD 2013-2 - Lack of Proper Documentation Obtained/Retained for Income Verification

Criteria or Specific Requirement: When an application is selected for income verification, the District must obtain appropriate documentation to support the applicant's income, per the Eligibility Manual for School Meals from the U.S. Department of Agriculture. The documentation obtained from the applicant must provide information to support the applicant's income according to the applicant's initial application, thereby enabling a proper determination of the applicant's eligibility. All verbal communications must be documented.

Condition: Complete and/or acceptable income-verification documentation was not always obtained during the income-verification process. In special circumstances in which verification documentation deviated from prescribed requirements, verbal communication could have been an acceptable method to determine the propriety of the documentation received. However, no written documentation of verbal communications was retained with the applications.

Context: During the testing of the income-verification process, we noted that proper supporting documentation was not always obtained or retained, creating difficulty in confirming applicants' income.

Effect: The lack of complete and conforming documentation makes it difficult/impossible to verify an applicant's eligibility.

Cause: Lack of complete and acceptable documentation obtained/retained for applicants contributes to erroneous eligibility determinations.

(Continued)

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Significant Deficiencies in Internal Control (Continued)

Recommendation: District employees must be familiar with the eligibility and income-verification guidelines and requirements. To assist in obtaining acceptable income documentation from the applicants, the District is required to attach a listing of acceptable information to the notification-of-selection letter, which is mailed to the applicant. The District should diligently review and evaluate documentation obtained from the applicant in order to determine if the documentation is sufficient and acceptable under the program's guidelines and requirements. If issues/exceptions are noted, the District should obtain further documentation as necessary from the applicant. In special circumstances, verbal communications could be an acceptable method to justify that the documentation received satisfies the verification requirements. The District must analyze all verbal responses from applicants in order to determine that explanations are reasonable and logical. All documentation obtained and communications (including verbal) must be documented and retained in the applicant's file.

View of Responsible Officials and Planned Corrective Action: The corrective action plan is to immediately implement a procedure to obtain and retain proper income-verification documentation, and to document all verbal correspondence with applicants in the applicants' files. The Food Service Director will monitor the accumulation and retention of all appropriate documentation within an applicant's file.

B. Compliance Findings

There were no findings relating to Federal awards requiring reporting in accordance with Section .510(a) of OMB Circular A-133.

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Grantor/Program Title	Source Code	Federal C.F.D.A. Number	Pass- Through Grantor's Number	Grant Period
U. S. Department of Education				
Passed through the Pennsylvania Department of Education				
Title I, Improving Basic Programs	I	84.010	013-120447	11-12
Title I, Improving Basic Programs	I	84.010	013-130447	12-13
Title II, Improving Teacher Quality	I	84.367	020-120447	11-12
Title II, Improving Teacher Quality	I	84.367	020-130447	12-13
Title III, Language Instruction LEP and Immigrants	I	84.365	010-120447	11-12
Title III, Language Instruction LEP and Immigrants	I	84.365	010-130447	12-13
ARRA - Education Jobs	I	84.410	140-139162	10-11
Passed through Lincoln Intermediate Unit #12				
Special Education Grants to States	I	84.027	N/A	12-13
Special Education - Preschool Grants	I	84.173	N/A	12-13
Total U. S. Department of Education				
U. S. Department of Agriculture				
Passed through Pennsylvania Department of Education				
National School Lunch Program	I	10.555	N/A	12-13
School Breakfast Program	I	10.553	N/A	12-13
Passed through the Pennsylvania Department of Agriculture				
Food Donation (a)	I	10.555	N/A	12-13
Total U. S. Department of Agriculture				
Total Expenditures of Federal Awards				

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 07/01/12	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 06/30/13
\$ 189,335	\$ 24,100	\$ 24,100	\$ -	\$ -	\$ -
\$ 209,520	188,193	-	209,520	209,520	21,327
\$ 62,123	8,216	8,216	-	-	-
\$ 62,277	58,297	-	62,277	62,277	3,980
\$ 28,477	7,584	7,584	-	-	-
\$ 22,813	19,771	-	22,813	22,813	3,042
\$ 6,842	6,842	6,842	-	-	-
\$ 230,585	233,942	-	233,942	233,942	-
\$ 2,879	2,879	-	2,879	2,879	-
	549,824	46,742	531,431	531,431	28,349
N/A	329,686	-	336,815	336,815	7,129
N/A	55,625	-	56,756	56,756	1,131
N/A	(b) 51,970	(c) (528)	51,893	(d) 51,893	(e) (605)
	437,281	(528)	445,464	445,464	7,655
	\$ 987,105	\$ 46,214	\$ 976,895	\$ 976,895	\$ 36,004

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2013

Source Codes:

- D - Direct Funding
- I - Indirect Funding

Legends:

- (a) Donated commodities valued at local market values
- (b) Total amount of commodities received from
Department of Agriculture
- (c) Inventories at July 1, 2012
- (d) Total amount of commodities used
- (e) Inventories at June 30, 2013

Test of 50% Rule:

Programs selected for testing as major programs:

Special Education Grants to States
Child Nutrition Cluster

\$ 233,942					
445,464					
<u>\$ 679,406</u>	/	\$ 976,895	=	69.55%	

See Notes to Schedule of Expenditures of Federal Awards.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal-grant activity of Upper Adams School District under programs of the Federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of financial statements.

Note 2. Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Sub-recipients

With respect to the Federal expenditures presented in the Schedule, the Upper Adams School District did not provide any Federal awards to sub-recipients.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

Year Ended June 30, 2013

Identifying Number: SD 2012-1 - Improper Determination of Status and/or Error or Lack of Update to Applicant Status

Audit Finding: Improper entry into software from data presented on application as well as improper or lack of update to applicant status upon receipt of new supporting documentation produced errors in applicants' statuses. Findings may result in a reduction or termination of Federal funding to the District.

Corrective Action Taken: District failed to implement corrective action plan as originally presented. Issues remained in fiscal year 2012-2013, as reported in finding SD 2013-1.

Identifying Number: SD 2012-2 - Lack of Proper Documentation Retention

Audit Finding: Application and correspondence was not always retained during the initial application process or during the change-in-application process. The lack of supporting documentation makes it difficult to verify the accuracy of an applicant's eligibility.

Corrective Action Taken: The corrective action plan was to implement a procedure to retain all applications, correspondence, reports, and information in the applicant's file. The plan was only partially implemented. Similar issues occurred in fiscal year 2012-2013, as reported in finding SD 2013-2.

Identifying Number: SD 2012-3 - Lack of Complete Documentation for Accurate Verification Summary Report

Audit Finding: Partial documentation was received from some applicants during the verification process. Additional documentation was not obtained by the District; consequently, the applicants' statuses were unclear. Some applicants' statuses may have changed if proper documentation had been obtained. Applicants' eligibility statuses were not clearly verifiable due to the incomplete supporting documentation obtained from the applicant. Consequently, the eligibility statuses of these applicants could be inaccurate.

Corrective Action Taken: The corrective action plan was to verify that documentation was obtained to support all information provided on initial applications. The plan was only partially implemented. Similar issues occurred in fiscal year 2012-2013, as reported in finding 2013-2.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

Year Ended June 30, 2013

Identifying Number: CF 2012-1 - Improper Number of Applications Verified for Verification Summary Report

Audit Finding: The Verification Summary Report reported that 246 approved applications were on file as of the first operating day of October. Based on the 3.00%-random type of verification used, 3.00% of 246 yields a sample size of 7.38 applications. By following the Verification Summary Report Instructions, the 7.38 sample size is to be rounded upward, thereby yielding a sample size of 8. The Verification Summary Report states 8 applications were included in the sample, but verification documentation was only found for 7 applications. The prescribed sample size was short by 1 application. According to the Café Enterprise Software, the sample size was 7 applications. Consequently, only 7 verification attempts were made as opposed to the required 8.

Corrective Action Taken: The corrective action plan was implemented to adjust rounding upward in the Café Enterprise Software.



Wesley T. Doll, Ed.D.
Superintendent of Schools

Michael J. Lawrence,
Business Administrator
Anne K. Corwell, Ed.D.
Director of Student Services

Dennis E. Cope
Supervisor of Administrative Services

James D. Van Dyke,
Director of Technology

Upper Adams School District

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CORRECTIVE ACTION PLAN

Upper Adams School District respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and address of independent public accounting firm:

Boyer & Ritter LLC
1137 Kennebec Drive
Chambersburg, PA 17201

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2013, are discussed below. They are numbered consistently with the numbers on the schedule.

Significant Deficiencies related to Federal Awards to be reported:

Identifying Number: SD 2013-1 – Improper Determination of Status and/or Error or Lack of Update to Applicant Status

Finding: The District must develop and maintain a system to review applications for free and reduced meals; the system must properly identify eligible and non-eligible students. Improper entry into the software from data presented on the application, as well as improper or lack of update to applicant status upon receipt of new supporting documentation produced errors in applicants' statuses.

Corrective Actions Taken or Planned: The corrective action plan is to immediately implement a procedure to verify accuracy of entry into the software system, in order to produce accurate applicant status. The Food Service Director will review the initial entry of applications and any adjustments made to the eligibility status of the applicant.

(continued)

Identifying Number: SD 2013-2 – Lack of Proper Documentation Obtained/Retained for Income Verification

Finding: When an application is selected for income verification, the District must obtain appropriate documentation to support the applicant's income, per the Eligibility Manual for School Meals from the U.S. Department of Agriculture. The documentation obtained from the applicant must provide information to support or disprove the applicant's income per initial application, in order to properly determine the applicant's eligibility status. All verbal communications must be documented. Complete and/or acceptable income verification documentation was not always obtained during the income verification process. In special circumstances in which verification documentation varied from the standard requirements, verbal communications could have been an acceptable method to justify that the documentation received was reasonable and logical. However, no written documentation of verbal communications was retained with the applications.

Corrective Actions Taken or Planned: The corrective action plan is to immediately implement a procedure to obtain and retain proper income verification documentation, and document all verbal correspondence with applicants in the applicant's file. The Food Service Director will monitor that all appropriate supporting documentation is obtained and retained within the applicant's file.

Sincerely,



Laurie Ensor Funt
Food Service Director
Upper Adams School District